

### Q4 sales beat & effectively zero net debt

Millennium Services Group Ltd (ASX:MIL) has released a quarterly activity report for the June 2021 quarter, with two key beats relative to our current forecasts. **First**, the company has ended the year in effectively a zero net debt position, albeit aided by payment and collection timings. This, and the effective interest rate on debt, has seen us reduce interest expense assumptions through the forecast period. **Second**, Q421 revenue came in 14% above our estimates, which were conservative given a COVID-impacted base and continued COVID disruptions. This represents a 3% increase for FY21 and a higher base for forecast years, resulting in a similar increase across the forecast period. Using our current GP% and operating cost assumptions our underlying NPAT/EPS assumptions increase 12%-15% over the FY22-FY24 forecast period as a result of these changes. We will await the finer details of the FY21 results release (expected mid-August) to fine tune our DCF valuation, but highlight that based on our current earnings estimates, MIL is trading on an FY21 PE of ~7.0x and EV/EBITDA of 2.7x. Our assessed peer group trades on an average 4.8x FY21(f) EV/EBITDA, offering 80% upside to the current share price on a multiple-based valuation.

#### Business model

MIL is essentially a human services business, bidding for predominantly fixed rate contracts with opportunities for volume gains and ad hoc services, across the essential services of cleaning & security for durations of 3-5 years with large corporates. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contacted price is the key to profitability. Historically focusing on cleaning and security services within major shopping centres, MIL is looking to de-risk the retail exposure by moving into new sectors including Aviation, Aged care, Education and Government. An increased focus on compliance (Fair Work, Modern Slavery Act and Labour Hire regulations) and utilising the ASX listed nature of the business will be key prongs.

#### FY21 sales base higher than forecast

Q4FY21 revenues were 14% above our conservative estimates given uncertainty over the COVID-impacted PCP base and any further COVID disruptions in Q4FY21. We have now adjusted our FY21 numbers to reflect this, which has also positively impacted the base for future estimates. Currently, most of our growth forecast for FY22 is a "normalisation" of Q1 sales from \$64.3m in Q1FY21 to the ~\$69m-\$70m reported through Q2-Q4FY21, with any new contract wins offering upside.

#### 80% upside based on FY21 peer EV/EBITDA multiples

Peers for financial comparison with MIL are businesses that rely on human resources to deliver contracted or project work, operate on low gross profit margins (15%-20%), typically deal with larger customers than themselves and are small cap in nature. Stocks with consensus earnings that fit this bill include NWH, MAH, SSM, BSA, GNG and LYL. The average FY21 EV/EBITDA for this group is 4.8x against our assessed EV/EBITDA for MIL of 2.7x. A similar multiple for MIL would imply a share price closer to \$1.20, before any re-rate of the peer group.

#### Historical earnings and RaaS Advisory estimates

Year end	Adj Revenue (A\$m)	Und. EBITDA (A\$m)	NPAT adjusted (A\$m)	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/20a	257.3	4.0	2.0	0.04	nm	0.25
06/21e	273.7	11.5	4.4	0.09	6.9	0.11
06/22e	285.6	12.3	4.7	0.10	6.3	0.09
06/23e	299.9	13.1	6.1	0.13	4.9	0.07

Source: Company data, RaaS Advisory Estimates for FY21e, FY22e and FY23e

#### Human Services

19<sup>th</sup> July 2021

#### Share details

ASX Code	MIL
Share price	\$0.65
Market Capitalisation	\$30.0M
Shares on issue	45.9M
Net Debt at Jun 30 '21	~\$0.0M
Free float	~31.5%

#### Share performance



#### Upside Case

- Converting a portion of the \$532m qualified pipeline over the next 18-months
- Successfully diversify industry exposure to including Government, Education, Aged Care and Commercial
- Re-commence dividend payments

#### Downside Case

- Competitive margin pressure re-emerges
- Wages growth above levels recoverable by contract
- Fail to get workforce to embrace new rostering systems

#### Board of Directors

Stuart Grimshaw	Chairman
Scott Alomes	CEO
Rohan Garnett	Non-Executive Director
Darren Perry	Non-Executive Director

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\*The author owns shares

### Exhibit 1: Financial Year Financial Summary

Millennium Services (MIL.AX)						Share price (16 July 2021)						A\$	0.650				
<b>Profit and Loss (A\$m)</b>						<b>Interim (A\$m)</b>						<b>H119</b>	<b>H219</b>	<b>H120</b>	<b>H220</b>	<b>H121</b>	<b>H221</b>
<b>Y/E 30 June</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	Revenue	153.7	141.0	135.1	146.8	159.7	138.6					
Revenue	294.7	257.3	273.7	285.6	299.9	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5					
Gross profit	30.1	30.8	39.8	41.4	42.9	EBIT	(6.7)	(2.0)	(0.0)	(1.8)	4.8	2.1					
GP margin %	10.2%	12.0%	14.5%	14.5%	14.3%	NPAT (normalised)	(5.2)	(9.2)	(1.7)	2.0	2.6	1.1					
Underlying EBITDA	0.1	4.0	11.5	12.3	13.1	Minorities	0.0	1.0	2.0	3.0	4.0	5.0					
Depn	(8.8)	(5.9)	(4.6)	(4.8)	(4.0)	NPAT (reported)	(8.7)	(10.1)	(0.8)	2.8	3.2	1.1					
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	nm	nm	nm	0.061	0.070	0.024					
EBIT	(8.7)	(1.9)	6.9	7.5	9.1	EPS (reported)	nm	nm	nm	0.061	0.070	0.024					
Interest	(2.5)	(3.2)	(1.6)	(0.8)	(0.5)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	(3.2)	5.3	(1.6)	(2.0)	(2.6)	Imputation											
NPAT	(14.3)	0.3	3.7	4.7	6.1	Operating cash flow	na	na	na	na	na	na					
Adjustments	(4.4)	1.7	0.7	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
<b>Adjusted NPAT</b>	<b>(18.7)</b>	<b>2.0</b>	<b>4.4</b>	<b>4.7</b>	<b>6.1</b>	<b>Divisionals</b>						<b>H119</b>	<b>H219</b>	<b>H120</b>	<b>H220</b>	<b>H121</b>	<b>H221</b>
Abnormals (net)	(26.8)	14.5	13.8	0.0	0.0	Cleaning	125.4	115.9	111.4	102.0	107.9	115.9					
NPAT (reported)	(45.5)	16.5	18.2	4.7	6.1	Security	28.4	25.1	23.7	20.2	27.2	22.7					
<b>Cash flow (A\$m)</b>						<b>(Other)</b>						-	-	-	24.6	24.7	-
<b>Y/E 30 June</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	Total Revenue	153.7	141.0	135.1	146.8	159.7	138.6					
EBITDA (inc cash rent/UK)	0.1	19.4	33.3	11.3	12.1	Gross profit	13.0	17.1	17.0	13.8	19.9	19.9					
Interest	(2.5)	(3.2)	(1.6)	(0.8)	(0.5)	Underlying GP Margin %	8.5%	12.2%	12.6%	11.3%	14.8%	14.3%					
Tax	(0.9)	0.5	0.0	(2.0)	(2.6)	Operating Costs											
Working capital changes	2.2	(16.6)	6.7	1.8	(0.3)	Employment	10.1	8.6	8.3	16.4	16.2	10.2					
<b>Operating cash flow</b>	<b>(1.1)</b>	<b>0.1</b>	<b>38.4</b>	<b>10.3</b>	<b>8.7</b>	Other	8.8	7.0	5.5	4.9	6.2	5.2					
Mlce capex	(1.3)	(2.2)	(2.4)	(2.6)	(2.7)	Exceptional	- 3.5 -	0.9	0.9	- 9.2 -	9.5	-					
<b>Free cash flow</b>	<b>(2.4)</b>	<b>(2.1)</b>	<b>36.0</b>	<b>7.7</b>	<b>6.0</b>	Total costs	15.4	14.6	14.7	12.1	12.9	15.4					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	(2.4)	2.5	2.4	1.7	7.0	4.5					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	(1.6%)	1.8%	1.7%	1.1%	4.4%	3.2%					
Other	(2.7)	(2.5)	(2.5)	(2.5)	(2.5)	Margins, Leverage, Returns		<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>					
Cash flow pre financing	(5.1)	(4.6)	33.5	5.2	3.5	EBITDA margin %		0.0%	1.6%	4.2%	4.3%	4.4%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(2.9%)	(0.7%)	2.5%	2.6%	3.0%					
Debt draw down/(repay)	(3.6)	1.6	(29.0)	(2.0)	(3.0)	NPAT margin (pre significant items)		(6.4%)	0.8%	1.6%	1.6%	2.0%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		27.1	34.6	1.1	-4.1	-7.6					
<b>Net cash flow for year</b>	<b>(8.7)</b>	<b>(3.0)</b>	<b>4.5</b>	<b>3.2</b>	<b>0.5</b>	Net debt/EBITDA (x)	(x)	314.9 x	8.6 x	0.1 x	-0.3 x	-0.6 x					
<b>Balance sheet (A\$m)</b>						ND/ND+Equity (%)	(%)	42.7%	63.5%	38.5%	58.1%	45.9%					
<b>Y/E 30 June</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	EBIT interest cover (x)	(x)	n/a	n/a	0.2x	0.1x	0.1x					
Cash	2.7	1.8	6.3	9.5	10.0	ROA		nm	(3.5%)	11.8%	13.4%	15.7%					
Accounts receivable	19.5	29.8	21.9	22.9	24.0	ROE		nm	nm	nm	nm	nm					
Inventory	0.8	1.2	1.3	1.3	1.3	ROIC		nm	nm	nm	nm	nm					
Other current assets	1.2	2.5	0.0	0.0	0.0	NTA (per share)		-0.95	-0.60	-0.20	-0.10	0.03					
<b>Total current assets</b>	<b>24.2</b>	<b>35.3</b>	<b>29.5</b>	<b>33.6</b>	<b>35.4</b>	Working capital		-1.8	14.8	8.1	6.4	6.7					
PPE	11.4	8.6	7.3	6.1	5.8	WC/Sales (%)		(0.6%)	5.7%	3.0%	2.2%	2.2%					
Goodwill	7.5	7.5	7.5	7.5	7.5	Revenue growth		nm	(12.7%)	6.4%	4.4%	5.0%					
Right of use asset	0.0	2.9	2.9	2.9	2.9	EBIT growth pa		nm	nm	(469.9%)	9.5%	21.5%					
Deferred tax asset	0.2	7.4	7.4	7.4	7.4	<b>Pricing</b>						<b>FY19A</b>	<b>FY20A</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	
Other	0.1	0.1	0.1	0.1	0.1	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9					
<b>Total non current assets</b>	<b>19.1</b>	<b>26.5</b>	<b>25.2</b>	<b>24.0</b>	<b>23.7</b>	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
<b>Total Assets</b>	<b>43.4</b>	<b>61.9</b>	<b>54.8</b>	<b>57.6</b>	<b>59.1</b>	EPS Reported	cps	nm	0.359	0.395	0.103	0.132					
Accounts payable	22.2	16.3	15.1	17.8	18.7	EPS Normalised/Diluted	cps	nm	0.043	0.095	0.103	0.132					
Short term debt	29.8	36.4	0.0	0.0	0.0	EPS growth (norm/dil)		nm	nm	119%	8%	28%					
Provisions	26.1	22.4	22.4	22.4	22.4	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Lease liabilities/other	0.0	0.8	5.7	3.2	0.8	DPS Growth		n/a	n/a	n/a	n/a	n/a					
<b>Total current liabilities</b>	<b>78.0</b>	<b>76.0</b>	<b>43.2</b>	<b>43.4</b>	<b>41.9</b>	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Long term debt	0.0	0.0	7.4	5.4	2.4	Dividend imputation		30	30	30	30	30					
Other non current liabs	1.8	5.8	5.8	5.8	5.8	PE (x)			nm	6.9	6.3	4.9					
<b>Total long term liabilities</b>	<b>1.8</b>	<b>5.8</b>	<b>13.2</b>	<b>11.2</b>	<b>8.2</b>	PE market		18	18	18	18	18					
<b>Total Liabilities</b>	<b>79.8</b>	<b>81.8</b>	<b>56.5</b>	<b>54.6</b>	<b>50.1</b>	Premium/(discount)			nm	(61.9%)	(64.8%)	(72.6%)					
<b>Net Assets</b>	<b>(36.4)</b>	<b>(19.9)</b>	<b>(1.7)</b>	<b>3.0</b>	<b>9.0</b>	EV/EBITDA		662.0	15.9	2.7	2.1	1.7					
Share capital	19.0	19.0	19.0	19.0	19.0	FCF/Share	cps	(4.535)	(4.535)	78.419	16.751	13.139					
Reserves	(8.4)	(8.5)	(8.5)	(8.5)	(8.5)	Price/FCF share		(14.332)	(14.332)	0.829	3.880	4.947					
Retained Earnings	(46.9)	(30.3)	(12.2)	(7.5)	(1.4)	Free Cash flow Yield		(7.0%)	(7.0%)	120.6%	25.8%	20.2%					
Minorities	0.0	0.0	0.0	0.0	0.0												
<b>Total Shareholder funds</b>	<b>(36.4)</b>	<b>(19.9)</b>	<b>(1.7)</b>	<b>3.0</b>	<b>9.0</b>												

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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